

Car tariffs prepare America for war

German Chancellor Angela Merkel was in the headlines in the past week for making fun of Donald Trump's suggestion that German cars threaten the national security of the U.S. Here's what she said at the [Munich Security Conference](#):

"I will say quite frankly that if we are serious about the transatlantic partnership, for me as German Chancellor it is a little disturbing, to say the least, to read that apparently – I haven't yet seen it in writing – the US Department of Commerce

has said that European cars are a threat to the national security of the United States of America. You see, we are proud of our cars, and we are entitled to be so. These vehicles are also built in the United States. The largest BMW factory is in South Carolina, not in Bavaria, in South Carolina. South Carolina in turn exports to China. If these vehicles, which are no less of a threat by being built in South Carolina than they would be by being built in Bavaria, suddenly pose a threat to US national security, then this comes as a shock to us. In that case, I can only say that I think it would be good for us to engage in proper talks. Whenever anyone has a grievance, we need to talk about it – that is how things work in the world. And then we will be able to find solutions."

Not only her comments, but also her logic, were picked up widely by politicians and journalists. Even [Miloš Zeman](#) quoted her last night on TV Barrandov as a way to criticize U.S. trade policy.

Our question to Merkel is whether she is ignorant of Trump's fundamental logic and policy objective or whether she is aware of it but is bluffing as a way to strengthen Germany's position in trade talks. As Trump sees it, German cars made in South Carolina are of course less of a security threat than German cars made in Bavaria. His Commerce Dept. will likely document this in the coming weeks on the principle of displacement: Imported cars in excessive numbers reduce the installed capability of U.S. indus-

try and inhibit the ability of the Defense Dept. to produce enough military vehicles during a crisis, surge or mobilization.

The Commerce Dept. came to precisely this sort of conclusion when it

and secure supply chains, and a skilled U.S. workforce. The erosion of American manufacturing over the last two decades, however, has had a negative impact on these capabilities and threatens to under-

mine the ability of U.S. manufacturers to meet national security requirements."

In Sept. of last year, the Defense Dept. wrote in a [supply-chain report](#) "The ground-systems sector is defined by a small set of prime suppliers engaged solely in production for both tracked and wheeled vehicles. There

3: Financial Statement - U.S. Operations							
Report the requested information, in thousands of U.S. dollars, for your organization's U.S. Operations							
Income Statement (Select Items)		2013	2014	2015	2016	2017	2018 Jan - Jun
A	Total Sales Revenue Earned on all U.S. Sales						
1	Revenue - Passenger Cars						
2	Revenue - Light Trucks						
3	Revenue - SUVs						
4	Revenue - Vans						
5	Revenue - Auto Parts						
B	Total COGS for All U.S. Sales						
1	COGS - Passenger Cars						
2	COGS - Light Trucks						
3	COGS - SUVs						
4	COGS - Vans						
5	COGS - Auto Parts						
C	Gross Profit (Loss) for all U.S. operations (including U.S. sales and exports)						
D	Selling, General, and Administrative (SG&A) Expenses (including U.S. sales and exports)						
E	Total Operating Income (Loss) (including U.S. sales and exports)						
F	Other Income & Expenses (Including Interest Expenses) (including U.S. sales and exports)						
G	Net Income (Loss) Before Taxes (including U.S. sales and exports)						
Balance Sheet (Select Items)		2013	2014	2015	2016	2017	2018 Jan - Jun
A	Cash and Cash Equivalents						
B	Inventory						
C	Current Assets						
D	Total Assets						
E	Current Liabilities						
F	Total Liabilities						
G	Retained Earnings						
H	Total Owner's Equity						

conducted its Section 232 investigations of the aluminum and steel industries and then recommended tariffs of 10% and 25%. Such [investigations under the Trade Expansion Act of 1962](#) go into incredible detail through the use of a survey sent to companies in the industry. The table above should give you an idea of the information used to map defense capabilities. Here is what the Commerce Dept.'s [Bureau of Industry and Security](#) says in sending out the survey: "Information collected will include facilities and production data, joint ventures, trade flows, supply chain data, sales and demand data, employment information, conditions of competition, research and development information, and government and defense activities. The resulting aggregate data will give the Commerce Department detailed industry information that is otherwise not publicly available and needed to effectively conduct its analysis."

Failure to respond is [subject to a fine](#) of not more than \$10,000 or a prison sentence of not more than one year, or both. Merkel and Zeman can make fun of this, but it is no laughing matter.

Trump's logic has been consistent. In his first [National Security Strategy in Dec. 2017](#), he wrote, "A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation's ability to produce needed parts and systems, healthy

are two main suppliers for tracked tactical vehicles – one supplier specializing in steel fighting vehicles and another specializing mostly in aluminum armored vehicles. Wheeled combat service support vehicles are considered a defense-unique product, but the industrial base supporting this subsector is highly dependent on commercial automotive technology and production capabilities."

As part of the [steel investigation](#), CEO John Ferriola of Nucor, the largest U.S. steel producer, told the Commerce Dept. in a public hearing on May 24, 2017, that, "Steel used in national defense applications may be a relatively small share of our overall sales, but those products are made at the same facilities and by the same workers who make other products... In a time of national crisis, the U.S. cannot afford to rely on imported steel slabs from foreign suppliers like China or Russia."

When the report on the car-industry investigation is released in the coming weeks, similar statements from manufacturers about their contributions to military vehicles and other defense equipment will no doubt be included. The reality is that if the U.S. had to fight WWII today, it wouldn't be able to do it.

The question is whether Trump is sincere about national security or whether his car tariffs are just a way to win votes. Or is he instead engaged in a double bluff? Maybe he wants us to think that all he cares about are votes, when in fact he is methodically preparing for war.